

WC 03-249

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of

FCC/MELLON

NOV 26 2003

Iowa Telecommunications Services, Inc.

and

Heart of Iowa Communications Cooperative

File No. _____

Application for Authorization Pursuant to
Section 214 of the Communications Act of 1934,
as Amended for Transfer of Control of
the Conrad, Eldora, and Steamboat Rock
Exchanges

**APPLICATION FOR TRANSFER OF CONTROL OF THE CONRAD, ELDORA, AND
STEAMBOAT ROCK EXCHANGES**

Iowa Telecommunications Services, Inc. ("Iowa Telecom" or "Transferor") and Heart of Iowa Communications Cooperative ("Heart of Iowa" or "Transferee") (collectively the "Applicants"), by their undersigned counsel, and pursuant to Section 214 of the Communications Act of 1934, as amended, 47 U.S.C. § 214 (the "Act"), and Section 63.04 of the rules of the Federal Communications Commission ("FCC" or the "Commission"), 47 C.F.R. § 63.04, hereby request authority to transfer control of the rural Conrad, Eldora, and Steamboat Rock exchanges (the "Exchanges") from Iowa Telecom to Heart of Iowa, a total of 815 lines. As described in this application, Iowa Telecom has agreed to sell the Exchanges to Heart of Iowa, which will continue to provide service to Iowa Telecom's former customers upon completion of the transaction

Pursuant to Section 63 04(a) of the Commission's rules, the Applicants provide the following information in support of this transaction:

(1) Applicants' Name, Address and Telephone Number

Transferor: Iowa Telecommunications Services, Inc.
115 South Second Avenue, West
Newton, IA 50208

Telephone: (641) 787-2677
Facsimile: (641) 787-2468

Transferee: Heart of Iowa Communications Cooperative
502 Main Street
P.O. Box 130
Union, Iowa 50258-0130

Telephone: (641) 486-2211
Facsimile: (641) 486-2205

(2) State of Organization

- (a) Iowa Telecommunications Services, Inc. is a corporation organized under the laws of the State of Iowa
- (b) Heart of Iowa Communications Cooperative is a cooperative organized under the laws of the State of Iowa.

(3) Contact Information

All correspondence, notices and inquiries regarding this transaction should be addressed to:

Transferor: D. Michael Anderson
Vice President – External Affairs
Iowa Telecommunications Services, Inc
P.O. Box 330
Grinnell, IA 50112

Telephone: (641) 269-7807
Facsimile: (641) 269-7376

Copies of all correspondence, notices, and inquiries should also be addressed to:

Gregory J. Vogt
Wiley Rein & Fielding LLP

1776 K Street, NW
Washington, DC 20006

Telephone: (202) 719-7401
Facsimile: (202) 719-7049

Counsel for Iowa Telecom

Transferee: David L. Schmidt
General Manager
Heart of Iowa Communications Cooperative
502 Main Street
P.O. Box 130
Union, Iowa 50258-0130

Telephone: (641) 486-2211
Facsimile: (641) 486-2205

Copies of all correspondence, notices, and inquiries should also be addressed to:

David Cosson
Kraskin, Lessee & Cosson, LLC
2120 L Street, NW, Suite 520
Washington, DC 20037

Telephone: (202) 296-8890
Facsimile: (202) 296-8893

Counsel for Heart of Iowa

(4) Ten percent (10%) Equity Shareholders

Iowa Telecommunications Services, Inc.:

Iowa Network Services, Inc
4201 Corporate Drive
West Des Moines, Iowa 50266-5906
Citizenship: United States
Principal Business: Telecommunications
Percent Owned: 57 percent

FS Private Investments III, LLC
520 Madison Avenue
12th Floor
New York, New York 10022
Citizenship: United States

Principal Business: Financial Services
Percent Owned: 28 percent

Heart of Iowa Communications Cooperative:

None

(5) Certification Pursuant to Rules 1.2001-1.2003

Applicants hereby certify, pursuant to 47 C.F.R. §§ 1.2001-1.2003, that to the best of their knowledge, information, and belief, no party to the application is subject to denial of federal benefits pursuant to section 5301 of the Anti-Drug Abuse Act of 1988, 21 U.S.C. § 853.

(6) Description of Transaction

The Applicants have entered into an Asset Purchase Agreement in which Iowa Telecom has agreed to transfer its customer base and assets in the Exchanges to Heart of Iowa. Heart of Iowa currently operates as a competitive local exchange carrier ("CLEC") in the Exchanges, and currently has a majority of residential and business lines in all of the Exchanges. Of the 3,559 total lines in the Exchanges, Heart of Iowa already serves 2,744, or 77 percent. Post-consummation, Heart of Iowa will continue to offer the services currently offered to Iowa Telecom customers in these Exchanges.

(7) Geographic Description

Iowa Telecom is an independent incumbent local exchange carrier headquartered in Newton, Iowa. Iowa Telecom currently provides local exchange and exchange access service and dial-up and high-speed internet services to residential and business customers in some 300 exchanges widely distributed throughout the State of Iowa, comprising a total of some 257,000 access lines.

Heart of Iowa is headquartered in Union, Iowa. It is an established telecommunications carrier that provides incumbent local exchange and exchange access services to residential and business customers (approximately 2487 access lines total) in a cluster of small rural north-central Iowa communities: Albion, Ferguson, Green Mountain, Haverhill, Liscomb, New Providence, Union, and Whitten. Heart of Iowa presently serves the Exchanges, which adjoin its incumbent service area, as a CLEC. Heart of Iowa also offers intraLATA and interLATA (domestic and international) toll services to its local service customers. Finally, Heart of Iowa offers a range of vertical voice services, as well as dialup and high speed (DSL) Internet access services to customers in its service areas.

A map of Iowa highlighting the Exchanges, and the local service areas of Iowa Telecom and Heart of Iowa is attached as Exhibit I.

(8) Streamlined Treatment

The Applicants do not request streamlined treatment for this transaction.

(9) Other Related Applications Before the Commission

None.

(10) Statement of Imminent Business Failure

Not applicable.

(11) Separately Filed Waiver Requests

The Applicants have filed study area, average schedule, and NECA carrier common line tariff waiver requests concurrently with this Application.

(12) Public Interest Statement

This transaction is a direct outgrowth of the market realities in these three Exchanges, and reflects realities that largely predate Iowa Telecom's 1999 acquisition of its Iowa properties. Coupled with concrete benefits that will accrue to affected consumers, and both Applicants, the proposed transaction clearly serves the public interest, convenience and necessity.

Heart of Iowa operates in a handful of communities in north-central Iowa, focusing on rural farming communities. As a cooperative, Heart of Iowa offers local ownership. Over time, Heart of Iowa has expanded its operations as a facilities-based competitor to similar geographically-adjacent, rural farming communities. To that end, Heart of Iowa's growth has been directed at the three Exchanges at issue in this Application. In fact, Heart of Iowa now provides service to a substantial majority of lines in these Exchanges: 77 percent of the 3,559 lines (84 percent of the 884 business lines). In effect, Heart of Iowa has become the primary carrier in these Exchanges.

In contrast, Iowa Telecom operates a large number of rural exchanges, widely distributed throughout the state. When Iowa Telecom acquired these Exchanges from GTE Midwest Incorporated, Heart of Iowa was already active as a facilities-based competitor in these Exchanges.

This transaction is an outgrowth of the current market realities of these Exchanges, and allows Heart of Iowa to become the incumbent provider of local exchange service in these exchanges. The transaction will benefit consumers in these Exchanges. Specifically, affected customers will be able to purchase from Heart of Iowa high-speed Internet access over DSL, a service it provides to its CLEC customers but which Iowa Telecom has not yet provided in these Exchanges. Further, the transaction will provide affected customers with new services from a locally based carrier specializing in meeting the communications needs of the few rural

communities it serves. For 45 years, Heart of Iowa has offered its customers access to local management, local service personnel, and local service centers. Every customer will become an owner of the Cooperative, and will be able to exercise his or her vote in the operation of the Cooperative, including election of members of the Board of Directors.

In addition, Heart of Iowa is strengthened as a result of this transaction, achieving new economies of scale, a more cohesive and rational service area, and administratively simpler operations. Iowa Telecom also is strengthened through subtraction. The transaction will permit Iowa Telecom to focus greater resources and facilities on its remaining exchanges. As a result, Iowa Telecom will be better positioned to provide new services, *i.e.*, broadband, to its customers in a shorter timetable in its rural exchanges. Each party will thus be free to focus its investments and offerings on its exchanges, which require attention and development. Interrelated to that commitment, each party has agreed to refrain from acting as a CLEC in the other's service area for a five-year period.

Moreover, this transfer is consistent, albeit on a far smaller scale, with other transactions approved by the Commission that involved overlapping and adjacent service areas.¹ The same considerations apply in this instance. As in prior approved transfers, these Exchanges are served by a number of other inter-modal competitors active in the area —wireless providers U S.

¹ *Joint Applications of Telephone and Data Systems, Inc. and Chorus Communications, Ltd. For Authority to Transfer Control of Commission Licenses and Authorizations Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 22, 63, and 90 of the Commission's Rules, Memorandum Opinion and Order, 16 FCC Rcd 15293 ¶ 9 (Comm. Car. Bur. 2001) ("Chorus")* ("In this case, TDS and Chorus are actual competitors for local exchange and exchange access services in the Madison area."); *Joint Application of Global Crossing Ltd. and Citizens Communications Company for Authority to Transfer Control of Corporations Holding Commission Licenses and Authorizations Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 20, 22, 63, 78, 90, and 101 of the Commission's Rules, Memorandum Opinion and Order, 16 FCC Rcd 8507 (Comm. Car. Bur., Int'l Bur., Cable Serv Bur., Wireless Bur. 2001) ("Global Crossing/Citizens")* (adjacent service areas in four states)

Cellular and Midwest Wireless and cable operator Mediacom—thereby mitigating any negative competitive impact of this transaction. In addition, the closest population center to the Exchanges, Marshalltown, is served by a large Bell Operating Company, Qwest.² Moreover, unlike in those instances, this transaction is not a full-fledged combination of competing providers. Rather, this transfer involves only three small exchanges being transferred between two small providers, both of which will be stronger and more vibrant as a result of the transfer.³ Accordingly, consistent with precedent, the proposed transaction will serve the public interest, convenience and necessity by strengthening two small providers, and by directly benefiting the impacted consumers.

² See *Chorus* at n.26 (“SBC-Amentech, the largest incumbent LEC in Wisconsin, is the incumbent LEC in the City of Madison and some of the surrounding communities.”).

³ In *Global Crossing/Citizens*, the Commission highlighted the relative size of the exchanges in question, which were equal to, if not much larger, than the Exchanges at issue in this Application. See *Global Crossing/Citizens* at ¶ 7.

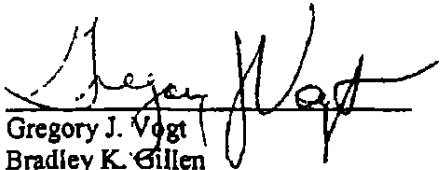
CONCLUSION

For the reasons stated herein, Iowa Telecom and Heart of Iowa respectfully request that the Commission promptly grant their Application for consent to transfer the Conrad, Eldora, and Steamboat Rock exchanges from Iowa Telecom to Heart of Iowa.

RESPECTFULLY SUBMITTED,

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Washington, DC 20006
(202) 719-7000

*Counsel for Iowa Telecommunications
Services, Inc.*

November 26, 2003

DECLARATION OF DAVID L. SCHMIDT

I, David L. Schmidt, General Manager of Heart of Iowa Communications Cooperative, ("Heart of Iowa") do hereby certify under penalties of perjury that to the best of my knowledge, information, and belief, Heart of Iowa, including all officers, directors, or persons holding 5% or more of the outstanding stock or shares (voting and/or non-voting) of Heart of Iowa as specified in Section 1.2003(b) of the Commission's Rules, is not subject to denial of federal benefits pursuant to section 5301 of the Anti-Drug Abuse Act of 1988.

Date 11/26/03



David L. Schmidt

General Manager

Heart of Iowa Communications Cooperative

DECLARATION OF D. MICHAEL ANDERSON

I, D. Michael Anderson, Vice President – External Affairs of Iowa Telecommunications Services, Inc., ("Iowa Telecom") do hereby certify under penalties of perjury that to the best of my knowledge, information, and belief, Iowa Telecom, including all officers, directors, or persons holding 5% or more of the outstanding stock or shares (voting and/or non-voting) of Iowa Telecom as specified in Section 1.2003(b) of the Commission's Rules, is not subject to denial of federal benefits pursuant to section 5301 of the Anti-Drug Abuse Act of 1988.

Date 11/25/03



D. Michael Anderson
Vice President – External Affairs
Iowa Telecommunications Services, Inc.

